SALES & MARKETING MANAGEMENT

AUGUST 1988
A BILL PUBLICATION
THREE DOLLARS

COMING UP SHORT
How One Sales Executive's Dream Of Owning His Own Company Turned into a Nightmare

IDEAS IN ACTION
Nine Surefire Ways To Cook Up New Products

DEMOGRAPHICS
Where the Hotbeds Of Metro Growth Are Now

STRATEGIES
How to Sell To a Millionaire

BOTTOM LINE
Financial Literacy For Marketers

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ESTABLISHED 1918

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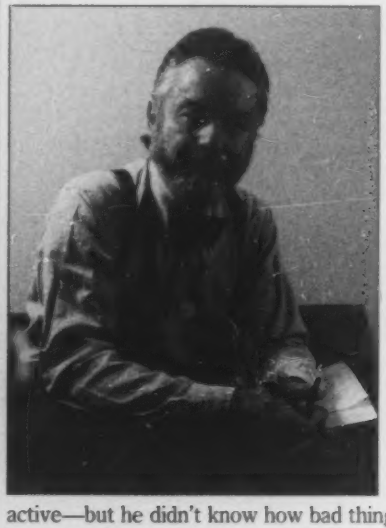
EDITOR'S SIDE POCKET

THE COMEBACK THAT WENT



"Revamping a department in a major company is one thing. Taking a company left for dead and bringing it to life is another."

Senior editor Bill Kelley wrote those words more than two years ago about a hard-driving, ambitious executive named Jim Lambert, who was determined to rejuvenate a staggering century-old company. Bill's words suggest the difficulty of the task that Lambert faced. Still, the betting at that time was that the former sales and marketing executive would succeed.

Several months ago, Bill received a photocopy of the Lambert cover in the mail. On it was scrawled, "Why don't you check out a company that's making it for change." Bill didn't require this sneering message to know that Lambert was in trouble—the grapevine had been active—but he didn't know how bad things were until he checked. Lambert's company, Morse Tools, was indeed in a sorry state; but he waited until bankruptcy proceedings had begun before attempting to reach him.

He found Lambert pleasant but tentative, and, not surprisingly, there was an air of resignation about him. "He agreed to my request for an interview," recalls Bill, "but he wasn't exactly enthusiastic about it."

They arranged to meet at a restaurant at the Detroit airport. "When I saw him, he didn't appear to have changed very much," Bill remembers. "He wore a golf shirt and a sport jacket, and he had his tan, of course. He's one of those guys who always has a tan—not a Hollywood tan, but the tan of a guy who spends a lot of time outdoors. Lambert's the sort you immediately like: There's a no-nonsense air about him, but he's not a hard-ass, either."

Their first conversation lasted more than three hours. Lambert had succeeded in putting his sour experience with Morse behind him, Bill says, but talking about it stirred things up. Bill compared it to getting over an old girlfriend. "Sure, you know there were good reasons for the breakup, but feelings surface again when you bring back old memories. Sometimes Lambert would get intense in going over the details of how the Morse deal went down. He got especially intense every time the word *lawyers* came up. Invariably, then, he'd light another cigarette. Before parting, we bet on the basketball playoffs. He had Detroit, and I guessed he got particular pleasure in beating a New England team. The Morse factory, you know, was in New Bedford."

At the time of this writing, Lambert has several deals cooking but is unemployed. Bill says he'd like to see him rebound. "He was a gambler and he lost, but he gave it his best without going over the line. In all my interviews I was hard-pressed to find anybody who would say, 'That son of a bitch lied to me.' "

Perhaps ironically, in this same issue is an article titled, "Financial Literacy for Marketers." It would be presumptuous of me to say that if Lambert had had a better financial grounding he wouldn't have put himself or his company on so shaky a limb. Still, it's undeniable that most men and women whose careers are bound in sales and marketing have deficits in their knowledge of financial matters. Now I'm not going to argue that this article is going to increase your literacy level tenfold; I will argue that at the very least it will tell you what you don't know.

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LETTERS

NO WAY TO CALL A WOMAN

I subscribe to your magazine and read it carefully every month. I am convinced that your magazine helps me do my job better. I also earmark articles that will be useful to my staff and pass them on.

I was reading "Ideas You Can Use" in your May issue when I stumbled on a brief article, "When You Meet the Press, Be Prepared." My organization has had a lot of bad publicity lately, so I was paying very close attention to how I could be better prepared if a reporter called me. I was imagining myself at my desk, getting this phone call from an aggressive reporter. My adrenaline was going to kick in. What was I going to say? Thank goodness this article was going to help me. I was thinking of actually taking notes.

And then I read "what appears in print can often be traced to a lack of adequate preparation by the businessman." I stumbled and fell off the tracks. As you can tell by my signature, I am a woman. When I read the word "businessman," I saw so clearly in my mind's eye a *man* in a standard dark business suit and tie that my own personal image was catapulted out of my own imagination and out of your article.

The word "man" does not cover all human beings. When I read "man," I see a man. Using "man" psychologically eliminates women. "Businessperson" or "manager" could be substituted for "businessman."

Your magazine does use inclusive language in other areas ("salesperson," "marketer"), and I thank you for that. And keep up the good work on the timely and valuable marketing and sales management information.

Susan Newman
Marketing Manager, Media Distribution
University of Minnesota
Minneapolis, MN

We are distressed by your letter; certainly we intend no disrespect to women by using the word "businessman." However, we feel that the occasional use of "businessman" or "salesman" is justifiable both for the sake of variety and because it sounds *better (compare, for instance, "America's Best Salesmen" as an article title to "America's Best Salespersons").*

When we use the masculine suffix, it is not to exclude or denigrate women, but because we feel that salesman, for instance, has become an inclusive term, as much as sculptor or poet.

All this is unimportant, however, compared to the fact that we alienated you from the article. For that, our sincere apologies.—Ed.

COUNT ON US

I just finished reading "Fumbles: Damn Right the Customer Isn't Always Right" [May] and found it to be a great follow-up to April's customer service article.

However, I must tell you I found a "fumble" in the article itself. It said: "We settled on nine examples in industries ranging from automobiles to take-out food," but I searched long and hard for the ninth example. After reading the first eight, I figured the ninth was far too outrageous to print.

Seriously, your articles are used by me to relate to my sales and customer service people the success and failures of companies both larger and smaller than ours. Size has nothing to do with it. Our rule is: The customer may not always be right, but he or she is always the customer.

Joseph R. Bavoso Jr.
Regional Marketing Manager
Whaleco
Brooklyn, NY

The ninth "fumble," of course, was ours. There were indeed just eight examples.—Ed.

CORRECTION

In the spring Computer Directory (May 1988), the price mentioned for Bartel Software's *Totall Manager: The Total Sales System* on page 58 was for the network version only. A single user version is also available, but the price was unavailable at press time. □

Coming Up

FLEETS
Now that some foreign cars are manufactured in the U.S., using them in fleets is more appealing. How much of a dent are the foreigners really making? And should you seriously consider a Japanese or German car for your salespeople?

HOW TO SELL TO A MILLIONAIRE

First you've got to find one; not an easy task when the appearance of wealth is everywhere.

BY THOMAS J. STANLEY

You can call me an authority on millionaires. Over the last decade, I have personally interviewed hundreds of them and surveyed thousands more using other methods. People are often surprised that millionaires will sit still for an interview. Well, they will, but they *are* price sensitive. It takes at least $100 in cash to get a millionaire to respond to a focus group interview. Participants are always asked if they would like the $100 or $200 themselves or donated to their favorite charity. I've yet to encounter the charitable response. As one millionaire put it to me: "I'm my favorite charity."

Frequently, sponsors who view tapes of my millionaire interviews complain, "They can't be millionaires. They don't have millionaire *names*; they don't *look* like millionaires; they don't *dress* like millionaires." True enough, most millionaires dress conservatively, if not modestly. My response to such comments is: "Do you want to study American millionaires or television actors who look like millionaires?"

Millionaires drive nondescript, full-size American-made automobiles, and often the cars are fairly old and appear the worse for wear. Buicks, Cadillacs, Chevrolets, Fords, Mercurys, Oldsmobiles, and Pontiacs account for over 60% of the cars most recently purchased by this group.

Their tastes in food and drink, as you might expect by now, are nothing extraordinary. Early in my career I was given the assignment of interviewing 10 millionaires in a group setting. I rented a luxurious town house for the interviews and hired a gourmet food consultant who prepared three varieties of caviar and multiple versions of pâté. I also had the finest liquors and French wines available. The first millionaire's response to my offer of a cocktail summarized the attitudes of the other nine: "I drink two kinds of beer—free and Budweiser." Not one bottle of my $600-a-case 1970 Bordeaux was drunk, and the hors d'oeuvres went untouched. Now I know better: The ideal menu for millionaires should include deli sandwiches, scotch, beer, and coffee.

Of the millionaires in this country, 80% are first-generation millionaires. Most of them have both a financial and a managerial interest in a small or medium-sized corporation, partnership, or sole proprietorship. Yet some believe that America is the land of big business. A few numbers show where the reality lies:

- The number of businesses has been increasing by nearly 1 million per year; sole proprietorships have accounted for over 70% of this growth.
- The growth in the number of businesses is approximately

From *Marketing to the Affluent* by Dr. Thomas J. Stanley, © 1988 by Dr. Thomas J. Stanley. Published by Dow Jones-Irwin.

three times as great as the growth of the household population.

- The millionaire population has increased at a rate almost 15 times faster than the household population in America.
- Today there are 90 million households in America. There are also nearly 20 million businesses operating in this country, or one business for every 4.5 households.

The typical American millionaire owns or owned a business that generated annual receipts of between $500,000 and $10 million. (This revenue range accounts for more than four out of five self-made business owner millionaires.) His business is or was likely to be in the top 10% of all firms in its industry in terms of profitability.

Despite the size and recent growth of small and medium-sized businesses, many marketers have failed to address the needs of the business owner and the millionaires among them.

HOW TO LOCATE A MILLIONAIRE

While neighborhood quality will certainly identify high concentrations of wealth, most of the households in the so-called prestigious neighborhoods are not in the millionaire league. Fewer than half of the homes that are valued at $300,000 or more are owned by households that have annual incomes of more than $100,000. One researcher found that half of the millionaires in the U.S. do not live in upper-class or upper middle-class neighborhoods, and that more than 700 neighborhoods in one metropolitan area had at least one household with income-producing assets of $1 million or more. Hardly the last word in status seeking, is it—living in a neighborhood that ranks 200th, 500th, or even 700th on the prestige scale?

Well, then, you may ask, who lives in the upscale neighborhoods? People who want to demonstrate their membership in the upper middle class, of course. But, remember, one can be very upper middle class and have a level of net worth nowhere near seven figures and an income of less than six figures. It is my belief that the number of households in America that are interested in looking wealthy is far greater than the number that are interested in being wealthy.

An alternative to targeting millionaires by their neighborhoods is to approach the problem from a wealth generation perspective. As I mentioned earlier, most American millionaires are first generation. Typically, their wealth has been generated from entrepreneurial pursuits. Thus, it is important to recognize what categories of business are associated with the presence of millionaire entrepreneurs.

Even the most elementary marketing textbooks indicate that particular types of industries are often highly concentrated. New York City, for instance, has a high concentration of apparel manufacturers, while Detroit has a large number of tool and die makers who service the automotive industry. A growing trend in marketing to the affluent is the exploitation of clusters of wealth within specific industries. Some enlightened marketers focus on industries with a high concentration of affluent business owners. I suggest finding them through what I call a business taxonomic method, which suggests a hierarchy in terms of the relative market value of business and the corresponding wealth of entrepreneurs within a targeted area.

Table 1 illustrates performance and pro forma market value estimates for privately held businesses with sales of $1 million or more. The number of privately held companies with annual sales of $1 million or more by standard industrial classification (SIC) can be estimated from data supplied by Dun and Bradstreet. Using pro forma net profit figures, you can get an estimate of total market value. You can also estimate the total market value of the million-dollar firms within selected SIC categories. This is a crude approximation, but it provides a reasonable estimation of the value of privately held businesses within each SIC in a metropolitan area.

Where the Money Is In Private Businesses

Standard Industrial Classification	Number of Firms in Category	Ranked by Market Value	Estimates: Return on Sales (Percent)	Estimates: Total Market Value ($000s)
3079 Plastic products	180	5	4.9	585,354
5511 Automotive dealers	374	10	1.7	455,940
5812 Eating places	401	14	4.2	455,490
2752 Commercial litho printing	163	17	5.4	414,558
8911 Engineering and architectural services	162	22	5.7	382,014
5084 Industrial machinery and equipment	450	26	2.5	318,150
1711 Plumbing, heating, air-conditioning	200	30	4.1	293,112
5081 Commercial machines and equipment	260	35	4.5	279,048
5161 Chemicals and allied products	110	60	3.3	179,388
5085 Industrial supplies	160	61	2.5	170,700
5039 Construction materials	140	81	3.1	131,058
3544 Special dies, tools	101	90	5.5	106,758
3841 Surgical, medical instruments	19	111	5.6	95,592
2011 Meat-packing plants	21	126	1.0	79,800
2051 Bread, bakery	22	143	3.7	64,260

TARGETING THE AFFLUENT

Why not target the affluent according to industrial neighborhoods or according to the means that the affluent use to commute to and from work? Some clever marketers have been known to deliberately seek out affluent prospects for car pool membership and seat selection on commuter trains and buses. What a fine opportunity. No telephones, no secretaries to interrupt your conversations with the prospect. And perhaps more important, little or no competition.

What about the importance of affluent industrial neighborhoods to marketers of financial services? More than a few top producers in the insurance and

securities industries achieved their status by cold-calling on entrepreneurs at their place of work. Consider the fact that in some industrial areas dozens of affluent entrepreneurs are within a few acres of one another. Often, the number of affluent prospects per acre, block, or zip code is higher in industrial areas than in Greenwich, Connecticut.

Millionaires are very often on top of their chosen fields because of the priority they place on gathering information in regard to the direction their fields are taking, the changes in the market for their goods and services. They are also keenly interested in obtaining information on competitive threats, new strategies, new product and service offerings, retraining, and new ideas. Where do they gain such information? At industrial, professional, and trade conferences, of course.

Many sales and marketing professionals think I am joking when I state that very often the best way to reach the affluent and even millionaires is to spend two, three, or four days at a trade show or conference of business owners or professionals. But when you think about it, it's perfectly logical. They seek advice and wisdom about how to improve their businesses and their personal lives. What better place than a meeting of peers?

Speaking at conferences should be a goal of every marketer to the affluent. Speakers at conferences are, by definition, experts. Their message is considered credible because of the implicit endorsement that the organization has given them. In addition, marketers are likely to find few, if any, competitors at such meetings, and these meetings produce leads on many business owners in the latent affluent category—the category comprising individuals with significant wealth who have not been discovered by competitors. Remember: Many wealthy business owners provide few, if any, clues about their true wealth.

Why not look for affluent targets among the major corporate giants? For several reasons. First, by definition, there are only 500 firms in the Fortune 500. This is in reality a small segment when one considers that there are about 3 million corporations and that the American millionaire population numbers over 1 million. Then, too, although the top three or four executives in major firms are often very well paid, few employees of major corporations become millionaires. Last, the names of these top executives are public information. Even their salaries and stock holdings to the penny are made available to the SEC and the financial press. Since the names and wealth of the leaders of industry are so widely available, these people are heavily prospected—indeed, hounded relentlessly by all manner of broker, planner, fund raiser, and so on. They are a long shot at best.

A more inviting target for your marketing efforts: *suppliers* to major corporations. Since big companies are very selective in the suppliers they patronize, you can feel confident that very often the owner-managers of such firms are among the most likely to be affluent—or even millionaires. Keep in mind, too, that sales of supplies to major corporations are frequently consummated by very affluent sales professionals—another likely target.

ALL THAT GLITTERS

Interestingly, I find that the managers representing the firms that typically sponsor interviews with millionaire focus groups wear more expensive clothing and jewelry than do most of the millionaire respondents. The moderately priced Seiko seems the most popular watch among millionaires. →

Ultraconsumers who buy luxury goods may be well-dressed, but that doesn't mean well-heeled.

Where Millionaires Live

Northeastern States		**Midwestern States**	
Connecticut	28,925	Illinois	71,153
Maine	2,914	Indiana	22,355
Massachusetts	32,724	Iowa	11,735
New Hampshire	4,209	Kansas	13,043
New Jersey	55,853	Michigan	47,802
New York	116,826	Minnesota	20,488
Pennsylvania	52,445	Missouri	21,305
Rhode Island	3,889	Nebraska	6,288
Vermont	1,535	North Dakota	2,794
		Ohio	48,225
Southern States		South Dakota	1,845
Alabama	12,512	Wisconsin	19,578
Arkansas	6,232		
Delaware	3,673	**Western States**	
District of Columbia	5,585	Alaska	5,477
Florida	57,634	Arizona	12,906
Georgia	21,480	California	170,362
Kentucky	11,969	Colorado	19,983
Louisiana	22,897	Hawaii	5,263
Maryland	29,296	Idaho	3,160
Mississippi	6,869	Montana	2,791
North Carolina	19,939	Nevada	5,366
Oklahoma	18,276	New Mexico	5,032
South Carolina	9,443	Oregon	11,256
Tennessee	16,013	Utah	5,464
Texas	102,085	Washington	23,820
Virginia	29,859	Wyoming	3,361
West Virginia	5,759	**U.S. total**	**1,239,713**

The millionaire population has increased at a nominal rate of more than 20% over the last two years. In January 1985, it was estimated that there were 832,602 American millionaire households. By January 1987, the level had reached 1,239,713. In both percentage and number, this change is the largest in the past 15 years.

You'll find it's the managers who wear the Rolexes, but rarely do they have six-figure incomes or $1 million in net worth.

When Grey Advertising recently released a study dealing with the income boundaries of the so-called ultraconsumer, I was not surprised by the results. The ultraconsumer category consisted of persons who aggressively seek luxury consumer goods. According to the study, people who are well-dressed may not be well-heeled financially. At what level of income did the Grey researchers find consumers of $700 suits? Was it in the $100,000, $200,000, or $1 million annual income category? Actually, the threshold annual income of such consumers was $25,000.

Despite plenty of evidence to the contrary, we continue to mislead ourselves by appearances—the size of a house, for instance, when size is a better predictor of the size of one's mortgage than the size of one's net worth. And conspicuous symbols of wealth are better indicators of one's credit card use than of the size of one's investment portfolio.

Remember that the principal objectives of the American millionaire are to minimize realized income and to maximize long-term unrealized income. The average millionaire in this country realized significantly less than 10% of his net worth in income each year, whereas many middle managers making $75,000 per year realize over 40%. As a result of taxes and socially defined consumption patterns, such managers have few or no discretionary dollars to invest. More people in America look wealthy than are wealthy.

Fish Story

We left Cos Cob harbor on a bright Sunday morning in September. As soon as we cleared the channel, we received the message on the two-way radio: A large school of hungry bluefish was attacking baitfish in the harbor of Greenwich, Connecticut. We arrived and strategically positioned ourselves in the middle of the frenzied blues. The captain suggested that I fish with the Big Daddy lure. This so-called lure looks more like the fat end of a baseball bat than a baitfish. I replied that the lure was so big that it would probably scare the fish. The captain, a seasoned veteran, replied, "To catch big fish, one must throw big bait." He also suggested that Big Daddys should not be cast on the water but launched in the direction of their intended target.

Not long after my Big Daddy hit the water, an 18-pound bluefish grabbed it and headed for open sea. Twelve minutes later, I landed this magnificent game fish. For several hours that morning, the bluefish continued to attack everything that the five occupants of our boat threw at them. Afterward, we determined that whoever threw the largest lure in the water seemed to catch the largest fish.

This experience is directly related to marketing to the affluent. If a marketer of investments, for example, approaches an affluent prospect with an offer of a small dollar amount of securities, the prospect may indicate a preference for another marketer, one who launches Big Daddys rather than minnows. The affluent often judge the quality of the marketer and his offering according to the dollar size of the proposal.

Millionaires rarely have time to deal with a multitude of small fish. Typically, they find it easier to deal with a small number of large offerings than with a large number of small offerings. In addition, they perceive marketers of small offerings as oriented to "minor league" clients. The reason for this perception is quite simple: Experts in their respective fields market and service big league customers.

Why is it, then, that only a minority of sales professionals target very big fish or even have a Big Daddy in their tackle box?

DO YOUR HOMEWORK

You must try to avoid spending your valuable marketing resources chasing images of dollars instead of real wealth. Distribute your efforts according to the expectation of return. Often, even top-flight sales professionals are too democratic in allocating their precious time to various segments; in fact, I find that some of the most marginal customers and prospects take up a disproportionate amount of their time.

Assume, for talking purposes, that you're a marketer of investment services. Now consider these two real-life case histories:

- Vince, 43, is a partner and senior vice president of sales for a highly profitable growth company that produces specialized computer systems. His annual income is in the $300,000 range. On average, his firm has $420,000 in its corporate checking account and over $2,200,000 in its pension and profit-sharing program. Several sales professionals work for him who make as much as or more than he does, and he knows a great many of the top sales professionals throughout the industry. For this reason, headhunters are constantly calling him for leads.
- Todd, 39, is a middle-level executive for a major corporation. His annual income combined with his wife's puts him in the $100,000 category. He lives in a top neighborhood, drives a high-performance European luxury import, and is a member of a quality country club. He has nearly $9,000 in investable assets. He is having a very difficult time paying his current bills, and he had to borrow money to buy an IRA.

From outward appearances, Todd is a top prospect, but obviously he's not in Vince's league. He has no business investment needs, and he would not be a good reference channel. The Todds of the world should be given the least amount of your time in spite of their affluent appearance.

If there is one lesson to be learned in selling to millionaires, it is to do your homework thoroughly and don't allow yourself to be taken in just as you're supposed to be taken in. A Mercedes in the driveway of a $500,000 home in a ritzy neighborhood shouldn't turn you off, but neither should it make your sales antennae start quivering out of control. □

Thomas J. Stanley is a professor of marketing at Georgia State Univ. and head of the Affluent Market Institute, which specializes in providing research on identifying, attracting, and retaining the affluent as clients.